

DOCKET NO. CV-02-0814173-S

SUPERIOR COURT

THE CONNECTICUT SURETY COMPANY,
CONNECTICUT SURETY CORPORATION,
CONNECTICUT SURETY INSURANCE AGENCY,
INC., FUNDS MANAGEMENT, INC., CONNECTICUT
SURETY INSURANCE AGENCY OF ARIZONA, INC.,
BONDS II SURETY GROUP, INC., AND
CONNECTICUT SURETY INSURANCE AGENCY OF
NEVADA, INC., IN LIQUIDATION

JUDICIAL DISTRICT OF HARTFORD

AT HARTFORD

SEPTEMBER 13, 2006

**NOTICE OF THE LIQUIDATOR'S MOTION FOR APPROVAL OF
DISTRIBUTION OF ASSETS TO CERTAIN CLASS 3 CLAIMANTS**

TO THE PARTIES LISTED ON THE SERVICE LIST:

1. Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, in her capacity as Liquidator of The Connecticut Surety Company (the "Liquidator"), by and through her counsel, Bingham McCutchen LLP, has filed her Motion for Approval of Distribution of Assets to Certain Class 3 Claimants (the "Motion"). A hearing will be held on the Motion on October 26, 2006 at 10:00 a.m., Superior Court, Judicial District of Hartford, 95 Washington Street, Hartford, CT 06116. Please report to Room 111 for courtroom assignment;

2. The Motion seeks a court order approving a distribution to certain Class 3 claimants, the details of which are set forth in the Motion;

3. A copy of the Motion is enclosed herewith;

4. Any party in interest may file an answer, objection or other responsive pleading with the Clerk, Superior Court, Judicial District at Hartford, 95 Washington Street, Hartford, CT 06116, and serve a copy on the undersigned at the address that appears below on or before October 12, 2006;

5. In the absence of any answer, objection, or responsive pleading, counsel shall certify to the Court the absence of such filing and serving and shall submit a proposed form of Order to the Court; and

6. In the absence of any answer, objection, or other responsive pleading, the Court may, upon consideration of the record, grant the Motion.

Dated: September 13, 2006
Hartford, Connecticut

**SUSAN F. COGSWELL, INSURANCE
COMMISSIONER OF THE STATE OF
CONNECTICUT, AS LIQUIDATOR OF THE
CONNECTICUT SURETY COMPANY**

By


Harold S. Horwich
BINGHAM MCCUTCHEN LLP
Juris No.: 27045
One State Street
Hartford, CT 06103-3178
Tel. (860) 240-2700
Her Attorneys

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SUPERIOR COURT
HARTFORD, CT

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	:	
THE CONNECTICUT SURETY COMPANY,	:	JUDICIAL DISTRICT OF
CONNECTICUT SURETY CORPORATION,	:	HARTFORD
CONNECTICUT SURETY INSURANCE	:	
AGENCY, INC., FUNDS MANAGEMENT, INC.,	:	AT HARTFORD
CONNECTICUT SURETY INSURANCE AGENCY	:	
OF ARIZONA, INC., BONDS II SURETY GROUP,	:	
INC., AND CONNECTICUT SURETY	:	
INSURANCE AGENCY OF NEVADA, INC., IN	:	SEPTEMBER 7, 2006
LIQUIDATION	:	

**LIQUIDATOR’S MOTION FOR APPROVAL OF DISTRIBUTION OF ASSETS TO
CERTAIN CLASS 3 CLAIMANTS**

Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, in her capacity as Liquidator of The Connecticut Surety Company (“CSC”), respectfully moves this Court for entry of an order pursuant to Conn. Gen. Stat. § 38a-946 approving a distribution of assets of the estate to certain claimants whose claims have been allowed pursuant to a final order of this Court. In support of her Motion, the Liquidator states and alleges as follows:

BACKGROUND

1. This case commenced on February 6, 2002, when this Court entered a consensual Order of Rehabilitation (the “Rehabilitation Order”) that placed CSC into rehabilitation proceedings pursuant to Conn. Gen. Stat. §§ 38a-903 – 38a-961, inclusive. Subsequently, on May 17, 2002, this Court entered an Order of Liquidation (the “Liquidation Order”) with respect to CSC, and appointed the Insurance Commissioner of the State of Connecticut as liquidator (the “Liquidator”) of CSC.

2. The Liquidator has pursued the collection of assets belonging to the estate in accordance with Conn. Gen. Stat. § 38a-923(a)(6). In addition, the Liquidator has analyzed claims filed against the estate in accordance with the procedures set forth in Conn. Gen. Stat. §

38a-941 and has presented to this Court in the past her recommendations on 96% of the Class 3 claims in accordance with Conn. Gen. Stat. § 38a-945. The Liquidator has only sought the allowance and disallowance of Class 3 claims. This Court has substantially granted each of the Liquidator's motions seeking allowance and disallowance of claims.

3. By motion dated September 30, 2005, the Liquidator, in accordance with Conn. Gen. Stat. § 38a-946, sought authorization from this Court to make a partial interim distribution to certain claimants holding Class 3 claims that had been allowed by a final order of this Court (the "Allowed Claims"). By order dated November 9, 2005 (the "Interim Distribution Order"), this Court authorized the Liquidator to: (a) immediately pay in full Allowed Claims of creditors that reside in states where the deposit has been made available to the Liquidator (unless the aggregate amount of such Allowed Claims exceeds, or will in the future exceed, the amount of the deposit returned to the Liquidator); (b) pay in full Allowed Claims of creditors that reside in states where the deposit is made available to the Liquidator after such deposit is received by the Liquidator (unless the aggregate amount of such Allowed Claims exceeds, or will in the future exceed, the amount of the deposit returned to the Liquidator); (c) pay 40% of Allowed Claims of claimants that do not reside in a state where a deposit has been made; and (d) pay the greater of (i) 40% of Allowed Claims or (ii) a pro rata share of the deposit to claimants that reside in a state that has returned the deposit to the Liquidator if the aggregate amount of Allowed Claims exceeds, or will in the future exceed, the amount of such deposit.

4. On or about December 23, 2005, the Liquidator made an interim partial distribution of assets to certain Class 3 claimants holding Allowed Claims (the "Interim Distribution"). Pursuant to the Interim Distribution Order, the Liquidator paid in full the claims of creditors residing in Arizona, Connecticut, Oregon and South Carolina, which were the states that had returned the deposits to the Liquidator prior to the Interim Distribution Order. In addition, the Liquidator made a partial Interim Distribution of 30% of the Allowed Claim to creditors residing in Alaska, California, Florida, Iowa, Louisiana, Maryland, Missouri, Nebraska, New Jersey, New Mexico, Ohio, Oklahoma, Pennsylvania, Texas, Utah, Vermont, Washington, and Quebec, Canada. The Liquidator did not make an Interim Distribution to holders of Allowed Claims in Arkansas, Georgia, Massachusetts and Nevada because those states had declined to release the deposits to CSC.

5. In this Motion, and subject to CSC having reached an agreement with the United States concerning any liabilities of the estate to the United States, the Liquidator seeks authorization to make a distribution to pay in full the allowed claims of residents of states where CSC did not make a deposit with the insurance department.

6. Conn. Gen. Stat. §38a-946 states:

Under the direction of the court, the liquidator shall pay distributions in a manner that will assure the proper recognition of priorities and a reasonable balance between expeditious completion of the liquidation and the protection of unliquidated and undetermined claims, including third party claims.

The Liquidator believes that the proposed distribution properly recognizes priorities and provides a reasonable balance between expeditious completion of this liquidation and the protection of unliquidated claims. All parties with claims senior to those receiving distributions are fully protected by reserves maintained by the Liquidator for such claims. All parties that are not

receiving distributions will also be protected by reserves and deposits with state insurance departments. For instance: (1) Arkansas holds a deposit of \$200,000, and the total amount of allowed and open policyholder claims in Arkansas is \$115,296.48; (2) Georgia holds a deposit of \$35,000, and policyholder claims filed by Georgia residents against the estate and allowed by orders of this Court amount to \$10,692.67; (3) Massachusetts holds a deposit of \$500,000, and policyholder claims filed by Massachusetts residents against the estate and allowed by orders of this Court amount to only \$419.59; (4) Nevada holds a deposit of \$200,000, and policyholder claims filed by Nevada residents against the estate and allowed by orders of this Court amount to \$167,373.29. There are no open policyholder claims from residents of Georgia, Massachusetts or Nevada. Accordingly, Arkansas, Georgia, Massachusetts and Nevada hold sufficient funds to pay the claims of their residents in full.

7. Conn. Gen. Stat. § 38a-944 provides for the priority of distribution of claims. Administrative expenses of CSC are entitled to Class 1 priority. These claims are currently paid, and the Liquidator has sufficient reserves for anticipated future administrative expenses. Guaranty funds handling claims are entitled to assert Class 2 claims for their expenses. Only two guaranty funds are actively involved in the case. They have not liquidated their Class 2 claims at this time, but they are not expected to be significant. The Liquidator has adequate reserves to cover the anticipated Class 2 claims. Certain other creditors have asserted that they are entitled to turnover of property of the CSC estate. The Liquidator disputes these claims, but has reserved sufficient funds to pay these claims in the event that the creditors prevail in their position.

8. At this time, the Liquidator has an accurate estimate of the maximum amount of CSC's Class 3 claims and has adequately reserved for the few remaining unliquidated claims.

9. By this Motion, the Liquidator seeks authorization to pay up to one-hundred percent (100%) of the unpaid amount of the allowed claims of claimants that reside in states where CSC did not make a deposit with the insurance department.

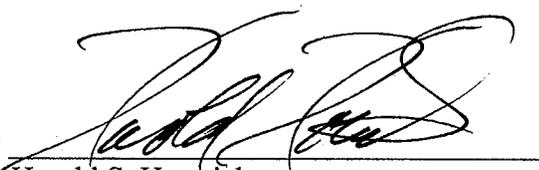
10. The Liquidator believes that the proposed distribution provides a reasonable balance between the expeditious completion of the liquidation and the protection of any unliquidated or undetermined claims as required by Conn. Gen. Stat. §38a-946.

WHEREFORE, the Liquidator respectfully requests that this Court authorize the distribution requested herein, subject to CSC having reached an agreement with the United States concerning any liabilities of the estate to the United States; and such other and further relief as to the Court shall seem equitable.

Dated: September 7, 2006
Hartford, Connecticut

**SUSAN F. COGSWELL, INSURANCE
COMMISSIONER OF THE STATE OF
CONNECTICUT, AS LIQUIDATOR OF THE
CONNECTICUT SURETY COMPANY**

By



Harold S. Horwich
BINGHAM MCCUTCHEN LLP
Juris No.: 27045
One State Street
Hartford, CT 06103-3178
Tel. (860) 240-2700
Her Attorneys

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Notice of Hearing on the Liquidator's Motion for Approval of Distribution of Assets to Certain Class 3 Claimants has been sent by first-class mail, postage prepaid, this 13th day of September 2006:

Argo Partners
c/o Kenneth A. De Koven, Esq.
12 West 37th Street, 9th Floor
New York, NY 10018

Mary Ellen Zwank
c/o Russell D. Daves, Esq.
1111 Main Street
Lubbock, TX 79401

Union Oil Company of California
c/o Kevin D. Morris, Esq.
Andre, Morris & Buttery
P.O. Box 1430
Santa Maria, CA 93456

Frances Sanchez
c/o Tino Guerra, Jr., Esq.
315 S. St. Mary's Street
San Antonio, TX 78205

State of Nevada Dept. of Taxation
Attention: Charleen Healy,
Administrative Assistant
1550 E. College Highway, Suite 115
Carson City, NV 89706

Regayla Loveless, for situated Herself and
All Others Similarly
c/o Theresa L. Pockrus, Esq.
2340 Green Acres Road, Suite 12
Fayetteville, AR 72703

Gustavo Gortarez, et al.
c/o Richard E. Donahoo, Esq.
Donahoo & Associates
505 N. Tustin Avenue, Suite 160
Santa Ana, CA 92705

Richard Truett Budd, Jr., Successor
Guardian, Estate of Alodee M. Budd
c/o John R. Norris III, Esq.
Calloway, Norris & Burdette
3811 Turtle Creek Blvd., Suite 400
Dallas, TX 75219

Government Employees Credit Union
c/o Michael J. Shane, Esq.
4695 North Mesa
P.O. Box 1322
El Paso, TX 79912-1322

Roger Bowling, Director
National Revenue Center
Alcohol & Tobacco Tax & Trade Bureau
550 Main Street
Cincinnati, OH 45202

Brian Wissman, Esq.
Ofc. of the Deputy Assistant Chief Counsel
Alcohol & Tobacco Tax & Trade Bureau
550 Main Street
Cincinnati, OH 45202

Star Insurance Company and
Meadowbrook, Inc.
Attention: Michael G. Costello, Sr., V.P.,
General Counsel & Secretary
26255 American Drive
Southfield, MI 48034-6112

Evergreen National Indemnity Company
c/o Anne L. Meyers, Esq.
Meyers, Roman, Friedberg & Lewis
28601 Chagrin Blvd., Suite 55
Cleveland, OH 44122

Woodrow M. Baird, Area Executive VP
Arthur J. Gallagher & Co. of Conn., Inc.
10 Columbus Boulevard
Hartford, CT 06106

PricewaterhouseCoopers LLP
100 Pearl Street
Hartford, CT 06103
Attn: Philip C. Surprenant, Partner

James A. FitzPatrick, Esq.
Dewey Ballantine LLP
1301 Avenue of the Americas
New York, NY 10019

Sandra C. Rushbrook
Assistant General Counsel
PartnerRe Insurance Company of New York
One Greenwich Plaza
Greenwich, CT 06830-6352

Mr. Roger Jacobsen
Partner Reinsurance Company
One Greenwich Plaza
Greenwich, CT 06830-6352

William Prenskey
Attorney General-Finance
55 Elm Street
P.O. Box 120
Hartford, CT 06141-0120

Halloran & Sage
One Goodwin Square
225 Asylum Street
Hartford, CT 06103

Brown, Raysman & Millstein
CityPlace 1
185 Asylum Street
Hartford, CT 06103

John Gaines, Vice President
Acceptance Insurance Company
300 West Broadway, Suite 1600
Council Bluffs, IA 51503

Bill Baxter, Controller
Acceptance Insurance Company
300 West Broadway, Suite 1600
Council Bluffs, IA 51503

Mr. Steven Agosta
X.L. America, Inc.
Seaview House
70 Seaview Avenue
Stamford, CT 06902-6040

Robb J. Canning
Senior Vice President
Guy Carpenter & Company, Inc.
One State Street, Suite 1500
Hartford, CT 06103-3102

Judith M. Chadwick
Senior Claims Specialist
Guy Carpenter & Company, Inc.
One Convention Place
701 Pike Street, Suite 2000
Seattle, WA 98101

Richard P. Nockett
Attorney for the United States
United States Department of Justice
P.O. Box 875 Ben Franklin Station
Washington, D.C. 20044-08750

John G. Haines, Esq.
State of Connecticut
Office of the Attorney General
55 Elm Street
Hartford CT 06106

State of Connecticut
Department of Revenue Service
Attention: Commissioner
P.O. Box 2979
Hartford, CT 06104

Vincent Daly, Assistant to the Chief, Branch 2
Lewis K. Brickates, Associate Chief Counsel
(Corporate)
Department of the Treasury
Internal Revenue Service
Washington, D.C. 20224

Michael DePalma, Branch Chief
Internal Revenue Service
915 Lafayette Boulevard
Bridgeport, CT 06604

Jeffrey Brenner
Internal Revenue Service
110 West 44th Street
New York, NY 10036

Mr. Francis Romano
Internal Revenue Service Taxpayer
Advocate Office
135 High Street
Hartford, CT 06103

Capitol Indemnity Corporation
c/o Charles R. Welsh, Esq.
Edwards & Angell, LLP
90 State House Square
Hartford, CT 06103

Gloria Glover
Alaska Insurance Department
550 West Seventh Avenue, Suite 1560
Anchorage, AK 99501

Leslie R. Hess
Deputy Receiver
Arizona Department of Insurance
2910 N. 44th Street, 2nd Floor
Phoenix, AZ 85018

Malisa Landers
Securities Custodian
Arkansas Insurance Department
1200 West Third Street
Little Rock, AR 72201-1904

Jon E. Arsenault
General Counsel
State of Connecticut
Department of Insurance
P.O. Box 816
Hartford, CT 06142-0816

Matthew Denn
Insurance Commissioner
Delaware Insurance Department
841 Silver Lake Boulevard
Dover, DE 19904

Deon Burns
Property & Casualty Insurer Solvency
Florida Insurance Department
200 East Gaines Street
Tallahassee, FL 32399

Alden France
Rehabilitation and Liquidation
Florida Insurance Department
200 East Gaines Street
Tallahassee, FL 32399

Donald Roof
Georgia Insurance Department
Two Martin Luther King, Jr. Drive
Atlanta, GA 30334

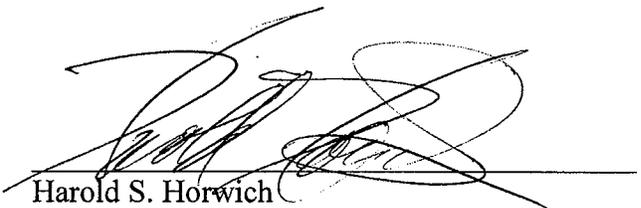
Barbara Petersen
Counsel to the Commissioner
Massachusetts Division of Insurance
One South Station
Boston, MA 02110-2208

Robert Dynan
Massachusetts Division of Insurance
One South Station, 5th Floor
Boston, MA 02110-2208

Commissioner Alice A. Molasky-Arman
788 Fairview Drive, Suite 300
Carson, City, NV 89701-5491

Cory Streisinger, Director
Oregon Dept. of Consumer
& Business Services
Attn: Russell Latham, Chief Examiner
Oregon Insurance Division
350 Winter Street NE, Room 440
Salem, OR 97301-3883

Timothy Campbell
South Carolina Department of Insurance
P.O. Box 10015
Columbia, SC 29202-3105



Harold S. Horwich